

## Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 IO-13 TRSE-00 OMB-01 SIL-01 LAB-04

CU-02 EB-07 /094 W

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 5844

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E.O. 11652: N/A

TAGS: EGEN, ECON, EFIN, PE

SUBJECT: MEETING WITH NEW CENTRAL BANK PRESIDENT

REF: LIMA 5936

1. SUMMARY: RECENTLY APPOINTMENT PRESIDENT OF PERU'S CENTRAL BANK ON JULY 21 OUTLINED TO ECON COUN EMERGING GOP ECONOMIC POLITICIES, INCLUDING DESIRE FOR CONTINUING RELATIONS WITH IMF, PLANS FOR WAGE INCREASES, INCREASED SUBSIDIES ON BASIC ITEMS, AN END TO MINI-DEVALUATION SYSTEM, AND AN INCREASE IN LIQUIDITY FOR BANKING SYSTEM. NEW POLITICES WILL BE "PRUDENT" IN EFFORT TO CONTROL INFLATION, AND KEEP PUBLIC SECTOR BUDGET AND BALANC OF PAYMENTS DEFICITS DOWN. DE LA MELANA SEES NO REAL GROWTH IN GNP IN 1977 AND INFLATION RATE IN 40 PERCENT RANGE. HE SAID THAT PERU WOULD BE TRYING ITS BEST TO HELP ITSELF, BUT CALLED ON USG TO UNDERSTAND AND ASSIST PERU AS APPROPRIATE. END SUMMARY.

2. EMBASSY'S ECONOMIC/COMMERICAL COUNSELOR MET WITH DR. GERMAN DE LA MELENA, NEWLY APPOINTMENT PRESIDENT OF BANCO CENTRAL DE LA RESERVA, ON MORNING JULY 21 FOR A WIDE-RANGING DISUCSSION OF PERUVIAN ECONOMIC PROBLEMS AND EMERGING POLICIES (REFTEL).

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AMONG KEY POINTS COVERED WERE:

A) RELATIONS WITH IMF. DR. DE LA MELENA POINT OUT THAT WHILE PERU DEFINITELY WISHES TO MAINTAIN A CLOSE RELATIONSHIP WITH THE IMF, IT WOULD BE PREMATURE TO REOPEN NEGOTIATIONS FOR A STANDBY AT THIS TIME, GIVEN THE FACT THAT PERU'S NEW ECONOMIC POLICY WAS STILL UNDER STUDY, AND INDEED WOULD NOT BE PUBLICLY ANNOUNCED UNTIL TOWARD THE END OF NEXT WEEK,

POSSIBLY BY PRESIDENT MORALES BERMUDEZ ON THE OCCASION OF THE "FIESTAS PATRIAS" JULY 28-29. SUCH A GENERAL OUT-LINE OF ECONOMIC POLICY ON JULY 28 WOULD BE ACCOMPANIED (PROBABLY IN EARLY AUGUST, BUT POSSIBLY EVEN BEFORE "FIESTAS PATRIAS") BY AN ADDRESS TO THE NATION DELIVERED BY RIG. GEN. ALCIBIADES SAENZ, NEW MINISTER OF ECONOMY AND FINANCE. FOLLOWING THESE PUBLIC EXPOSITIONS OF NEW POLICY DIRECTIONS, GOP PLANS APPROACH IMF WITH REQUEST FOR OPPORTUNITY FOR INFORMAL EXPLANATION OF NEW POLICIES. (GIVEN FACT THAT CENTRAL BANK TEAM WAS STILL BEING REORGANIZED, IT IS POSSIBLE, DE LA MELENA SUGGESTED, THAT PRESIDENT OF BANCO POPULAR AND EX-VICE MINISTER OF FINANCE DR. JOSE LUIS BROUSSET MIGHT BE GOP SPOKESMAN SENT TO WASHINGTON TO TALK TO FUND). IN ANY CASE, HOPE FOR STANDBY REMAINS VERY MUCH ALIVE WITHIN GOP, DE LA MELENA STRESSED.

B) INCOMES POLICY. DE LA MELENA NOTED THAT PURCHASING POWER OF PERU'S BLUE-COLLAR WORKERS HAS BEEN IN STEADY DECLINE OVER THE PAST 18 MONTHS, AND THAT SITUATION FOR MANY LOWER-PAID WORKERS IS NOW SO DESPERATE THAT STABILITY OF COUNTRY IS THREATENED. THUS, HE INSISTED, NEW PROGRAM MUST INCLUDE REASONABLE WAGE INCREASES PARTICULARLY FOR UNSKILLED WORKERS. ALSO, IN FACE OF DECAY IN WORKERS' STANDARD OF LIVING, SUBSIDIES FOR BASIC FOODSTUFFS AND ARTICLES ESSENTIAL TO WELL-BEING AND HEALTH OF POPULACE WOULD HAVE TO BE IMPOSED SO AS TO PERMIT SALE OF THESE LIMITED OFFICIAL USE

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NECESSITIES AT LOWER PRICES.

C) EXCHANGE RATE. CENTRAL BANK HEAD INDICATED THAT THE MINI-DEVALUATION SYSTEM WOULD BE REPLACED BY A MORE "FLEXIBLE" APPROACH. SOL WOULD BE KEPT AT PRESENT RATE FOR THE PRESENT, BUT WOULD BE DEVALUED FROM TIME TO TIME AS CONSIDERED APPROPRIATE. DE LA MELENA BLAMED MINI-DEVLUATION SYSTEM FOR CREATING CRISIS OF CONFIDENCE IN THE SOL AND FOR CREATING AN "INFLATION PSYCHOSIS" AMONG THE GENERAL PUBLIC. (HE DID NOT GO INTO THIS NOTION IN ANY DETAIL).

D) LIQUIDITY CRISIS. DE LA MELENA EXPLAINED THAT THE COUNTRY WAS FACING WHAT HE DESCRIBED AS A SERIOUS LIQUIDITY CRISIS, THAT FIRMS WERE GOING UNDER AND PRODUCTION WAS BEING SLOWED DOWN. (IN THIS REGARD HE SAID THAT REAL GOP GROWTH IN PERU THIS YEAR WOULD BE NEGLIGIBLE. HE SUGGESTED THAT THE NEW ECONOMIC POLICY WOULD PROBABLY INCLUDE A LOOSENING OF THE TOURNIQUET SO THAT FUNDS COULD FLOW MORE FREELY IN THE BANKING SYSTEM. HE STRESSED THAT THIS EASING OF CREDIT WOULD BE "PRUDENT".

D) PUBLIC SECTOR DEFICIT. ECONCOUN RECALLED THAT PUBLIC

SECTOR DEFICIT WAS TO HAVE BEEN REDUCED FROM PROJECTED 50-55 BILLION SOLES IN 1977 DOWN TO MORE MANAGEABLE 30-35 BILLION SOLES UNDER THE BARUA-PIAZZA ECONOMIC AUSTERITY PROGRAM, AND ASKED DE LA MELENA WHAT THE PLANNED DEFICIT MIGHT BE UNDER THE NEW ECONOMIC POLICY. DE LA MELENA SAID THAT THIS IS A MAJOR CONCERN OF THE CENTRAL BANK, SINCE PUBLIC SECTOR DEFICIT IS HIGHLY-INFLATIONARY AND CONTROL OF INFLATION IS OF GREAT IMPORTANT TO CENTRAL BANK. HOWEVER, HE STRESSED, OTHER ELEMENTS WITHIN GOP DO NOT GIVE THIS TIME TO MAKE EVEN AN INFORMAL PROJECTION OF THIS YEAR'S DEFICIT. HE PROMISED THAT THE CENTRAL BANK WOULD INSIST ON REDUCING THE DEFICIT TO THE GREATEST POSSIBLE EXTENT.

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F) INFLATION. IN VIEW OF LESS AUSTERE ECONOMIC POLICIES NOW UNDER CONSIDERATION, ECONCOUN ASKED DE LA MELENA ABOUT PROSPECTS FOR CONTROLLING INFLATION IN PERU THIS YEAR. DE LA MELENA ADMITTED THAT INFLATION IN 1977 WOULD BE IN 40 PERCENT RANGE EVEN WITHOUT IMPOSITION OF MORE "SOCIAL-ORIENTED" POLICIES NOW UNDER CONSIDERATION. HE EXPRESSED HOPE THAT THESE NEW POLICIES WOULD NOT CONTRIBUTE GREATLY TO INCREASE IN CPI DURING THE BALANCE OF THIS CALENDAR YEAR. ONCE AGAIN HE INVEIGHED AGAINST AN "INFLATIONARY PSYCHOSIS" AND SUGGESTED THAT NEW MEASURES, BY INCREASING STABILITY AND A FEELING OF WELL-BEING, WOULD HELP TO ERADICATE THIS "PSYCHOSIS".

G) RELATIONS WITH FINANCIAL COMMUNITY. DE LA MELENA STRESSED THAT A VITAL PART OF HIS JOB AS HEAD OF THE CENTRAL BANK WAS TO IMPROVE RELATIONS WITH INTERNATIONAL FINANCIAL INSTITUTIONS, FOREIGN COMMERICAL BANKS, AND THE LOCAL BANKING COMMUNITY. HE SAID THAT BANKERS ARE HARD-HEADED AND ARE MORE INTERESTED IN ACTS THAN WORDS. HENCE HE HOPES TO SHOW BY HIS ACTS OVER THE COMING WEEKS AND MONTHS THAT CONFIDENCE IN HIM WILL NOT BE MISPLACED.

H) REQUEST FOR ASSISTANCE. DE LA MELENA CONCLUDED CONVERSATION BY STRESSING THAT PERU WAS GOING TO MAKE EVERY EFFORT TO SOLVE PRESSING SOCIAL PROBLEMS WHILE AT THE SAME TIME TRYING TO MINIMIZE INFLATIONARY IMPACT AND BLANCE OF PAYMENTS PROBLEMS. HE CALLED ON USG FOR UNDERSTANDING AND APPROPRIATE ASSISTANCE OVER THE DIFFICULT PERIOD AHEAD.

3.COMMENT FOLLOWS SEPTTEL.  
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## Message Attributes

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